

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 PA-01 PRS-01 L-03 AGRE-00 /094 W
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P R 230445Z DEC 76
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 4359
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY LONDON
PARIS 4512/13
AMEMBASSY ROME
AMCONSUL HONG KONG
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DEPT PASS FEDERAL RESERVE, CEA, LABOR

E. O. 11652: N/A
TAGS: EFIN, JA
SUBJ: FINANCIAL AND ECONOMIC DEVELOPMENTS -- DEC 12-22

1. SUMMARY: PRIVATE JAPANESE FORECASTERS SEE AHEAD A RESUMPTION OF GROWTH IN 1977, CONTINUED PRICE PRESSURES, AND A MODERATE DETERIORATION OF THE CURRENT EXTERNAL ACCOUNTS. TO ENHANCE THE PROSPECTS OF ACHIEVING SATISFACTORY GROWTH, THE GOVERNMENT MOVES AHEAD WITH A SUPPLEMENTARY BUDGET FOR FY 1976, WHILE THE BANK OF JAPAN NOT ONLY SIGNALS MORE CLEARLY THAT THE DISCOUNT RATE WILL BE DROPPED BUT THAT IT MAY BE REDUCED BY MORE THAN EARLIER HINTED. OCT MONETARY AGGREGATES GOW MORE RAPIDLY THAN IN PRECEDING MONTHS. DEPT STORES SALES DOWN IN NOV, AFTER SHARP RISE IN OCT. INTER-EST RATE DIFFERENTIALS REPORTEDLY HALT PROGRESS TOWARD YEN SHIFT
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FOR IMPORT LOANS. END SUMMARY.

2. THE PAST WEEK HAS SEEN A GOOD DEAL OF ATTENTION DEVOTED TO THE OUTLOOK FOR THE NEW YEAR, PARTICULARLY IN LIGHT OF THE OPEC ANNOUNCEMENT OUT OF DOHA. ALTHOUGH THE GOVT'S CONSIDERED VIEWS OF THE FY 1977 PROSPECTS WILL NOT GO INTO THE PUBLIC RECORD

UNTIL NEXT MONTH, A NUMBER OF OTHER FORECASTS HAVE NOW APPEARED, INCLUDING THOSE OF THE JAPANESE ECONOMIC RESEARCH CENTER (TOKYO 18443), NOMURA SECURITIES, AND THE RESEARCH INSTITUTE OF THE NATL ECONOMY. WHILE THERE ARE DIFFERENCES AMONG THEM, THE SIMILARITIES ARE PROBABLY MORE INTERESTING. FOR EXAMPLE, AT A TIME OF CONSIDERABLE UNCERTAINTY IN MANY MINDS ABOUT THE PACE OF THE RECOVERY, THESE SAGES ALL FORECAST REAL GROWTH IN JAPAN OF AT LEAST 5 1/2 PERCENT IN CALENDAR YEAR 1977. AND THEY ALL SEE LITTLE, IF ANY, FURTHER PROGRESS IN CONTAINING INFLATION RATES (MEASURED IN CONSUMER PRICE TERMS) AT LESS THAN THIS YEAR'S 9 PERCENT OR SO RATE. THEY TEND TO SEE SOME BUT NOT MUCH DECLINE IN JAPAN'S CURRENT EXTERNAL SURPLUS FROM THIS YEAR'S EXPECTED \$3 BIL. IT IS A SAFE GUESS THAT THE OFFICIAL GOVT FORECAST IN JAN WILL BE A LITTLE HIGHER ON GROWTH, A LITTLE LOWER ON INFLATION AND CONSIDERABLY LOWER ON THE CURRENT EXTERNAL SURPLUS, BUT THE THRUST WILL BE THE SAME.

3. IN TERMS OF THE INDIVIDUAL NATL ACCOUNTS, THE CONSENSUS FORECAST (TAKING A FEW LIBERTIES WITH THE DEFINITION OF THE WORD "CONSENSUS") SEES RATHER BALANCED SUPPORT FOR GORWTH FROM MODERATE INCREASES IN PERSONAL CONSUMPTION, PRIVATE INVESTMENT (EXCEPT HOUSING) AND THE GOVT SECTOR, ESCHEWING SUBSTANTIAL SUPPORT FROM BOTH INVENTORY REBUILDING AND INCREASES IN NET EXPORTS OF GOODS AND SERVICES. IN SO DOING, THEY UNDERLINE THE CRITICAL IMPORTANCE OF NOT ALLOWING INFLATION TO CUT INTO THE REAL EXPENDITURES OF THE GROWTH SECTORS. THE LABOT UNIONS NOW APPEAR UNLIKELY TO MOVE QUICKLY TO OFFSET THE LOSS OF REAL INCOME WHICH WOULD ENSUE FROM ANY RELATIVELY MODEST ACCELERATION OF INFLATION. WHILE BUSINESS PROFIT POSITIONS HAVE IMPROVED, CAPACITY UTILIZATION (IN MAY INDUSTRIES) REMAINS RELATIVELY LOW, AND RENEWED LIMITED OFFICIAL USE

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INFLATIONARY PRESSURES COULD MAKE THEM EVEL LESS EAGER TO BUILD PRODUCTION TO MEET A CONSUMER DEMAND THAT THREATENED TO BE NULIFIED BY INFLATION. THE GOVT IS COMMITTED TO A POLICY OF REDUCING BOND FINANCING OF THE GENERAL BUDGET (WHICH WILL REACH ALOMOST 30 PERCENT OF TOTAL GENERAL BUDGET EXPENDITURES THIS FISCAL YEAR) AND WHILE IT HAS BRACED ITSELF FOR A FY 1976 SUPPLEMENTAL BUDGET AND SOME FURTHER EXPANSION IN BORROWING NEXT FISCAL YEAR, IT IS IN NO MOOD TO COMPENSATE MUCH MORE IF INFLATION SHOULD EAT INTO PROGRAMMED EXPENDITURE INCREASES. INDEED, A TOO EXPANSIONARY BUDGET IN THIS ECONOMICALLY CONSERVATIVE COUNTRY COULD, BECAUSE OF ITS EFFECT ON INFLATIONARY PSYCHOLOGY, REDUCE EFFECTIVE DEMAND.

4. IN THIS CONTEXT, THE OPEC OIL PRICE INCREASES, ALTHOUGH GREETED HERE WITH SOME SIGHS OF RELIEF, MAY WELL MEAN THAT JAPAN WILL IN FACT GROW MORE SLOWLY THAN WOULD OTHERWISE HAVE BEEN THE CASE. AS ONE COMMENTATOR SAID (TOKYO 18552), THE REAL GROWTH RATE MAY QUOTE ONLY UNQTE BE REDUCED BY 0.5 PERCENT. HOWEVER, IN THE FINAL

ANALYSIS, THE REMAINING CRITICAL, UNKNOWN VARIABLE AFFECTING THE OUTLOOK FOR JAPAN NEXT YEAR MAY BE COMMODITY PRICES OTHER THAN OIL. IF THEY ARE STABLE OR DECLINING, JAPAN MAY NOT HAVE MUCH DIFFICULTY ACHIEVING A GROWTH RATE GOOD BY MOST DEVELOPED COUNTRY STANDARDS. IF OTHER COMMODITY PRICES RISE SUBSTANTIALLY, JAPANESE POLICYMAKERS COULD WELL FIND THEMSELVES IN A SITUATION FROM WHICH THEY COULD NOT EXTRICATE THEMSELVES BY THEIR OWN ACTIONS.

5. REJECTING THE CONSENSUS ON THE NEED TO MOVE EXPEDITIOUSLY TO ASSURE RESUMPTION OF ECONOMIC RECOVERY, A SUPPLEMENTAL GENERAL ACCOUNT BUDGET AND ADDITIONAL FISCAL LOAN AND INVESTMENT PROGRAM (FLIP) EXPENDITURES WERE APPROVED BY THE CABINET ON DEC 21 AND ANNOUNCED PUBLICLY BY MOF. WITH ADOPTION OF THE SUPPLEMENTAL, GENERAL ACCOUNT BUDGET EXPENDITURES FOR CURRENT FY 1976 WILL TOTAL 24.7 TRILLION YEN (\$85 BIL AT YEN 290/DOLLAR), UP 18.3 PERCENT OVER REVISED 1975 BUDGET. THIS COMPARES WITH AN 8.5 PERCENT INCREASE IN JFY 1975. FLIP REVISIONS WILL BRING TOTAL FY 1976 AUTHORIZATIONS TO 11.4 TRILLION YEN (\$39 BIL), 6.4 PERCENT ABOVE LIMITED OFFICIAL USE

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FINL 1975 FLIP OUTLAY, COMPARED WITH LAT YEAR'S INCREASE OF 17.3 PERCENT (INCLUDING FY 75 SUPPLEMENTAL. MOF ESTIMATES ULTIMATE ADDITIONAL SPENDING ON CAPITAL PROJECTS FROM PRESENT AND NOV PACKAGE (TOKYO 16898 WILL BE AROUND 1.6 TRILLION YEN (APPROX \$5.6 BIL) IN JFY 1976. SUPPLEMENTARY BUDGET WILL BE SUBMITTED TO THE DIET IN JAN NEXT YEAR AFTER GETTING APPROVAL BY NEWLY FORMED CABINET (EXPECTED TO BE ANNOUNCED LATER THIS WEEK). BROAD OUTLINES OF PROPOSED MEASURES SUMMARIZED BELOW (IN BILLIONS YEN):

JFY 1976

PERCENT

	JFY 75 REV.(A)	SUPPLE- INITIAL	TOTAL MENTAL	CHANGE (B)	(B)/(A)
GEN.ACCT.BUDG.					
REVENUE TOTAL	15,357.2	17,021.0	254.2	17,275.2	12.5
EXPENDITURES					
TOTAL	20,837.2	24,296.0	354.2	24,650.2	18.3
FINANCING BOND					
PROCEEDS	5,480.0	7,275.0	100.0	7,375.0	34.6
FLIP	10,705.7	10,619.0	770.3	11,389.3	6.4

'NOTE

'NOTE: INCLUDES ADDITIONAL FUNDS OF 436.0 BIL YEN ANNOUNCED ON NOV 12, 1976 AND 334.3 BIL YEN APPROVED ON DEC 21.

6. PRESS REPORTS NOW INDICATE THAT THE BOJ IS THINKING POSITIVELY ABOUT A 0.5 PERCENT DECREASE IN THE DISCOUNT RATE IN JAN WHEREAS EARLIER REPORTS HAD SUGGESTED THE LIKELIHOOD OF A 0.25 PERCENT DECLINE. THE FEASIBILITY OF THE LARGER DECLINE, HOWEVER, WOULD DEPEND UPON THE NEW OGV'T'S AGREEMENT TO REDUCE INTERESTS RATES ON BANK DEPOSITS AND POSTAL SVAINGS. TIMING OF SUCH A CHANGE IN THE DISCOUNT RATES IS SAID TO BE MID-JAN, AFTER THE OUTLINES

OF FY 1977 BUDGET POLICY BECOME CLEA
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7. MONETARY AGGREGATES GREW MORE RAPIDLY IN OCT THAN IN
PRECEDING MONTHS. M1 AND M2 RECORDED CONSIDERABLY LARGER
INCREASE IN OCT THAN IN PRECEDING SEVERAL MONTHS. BANK
LOANS AND DISCOUNTS (S.A.) ADVANCED BY 1.1 PERCENT IN OCT,
COMPARED WITH ABOUT 0.9 PERCENT MONTHLY INCREASE AVERAGED
DURING PRECEDING TWO QUARTERS. CREDIT TO PRIVATE SECTOR AND
NATIONAL GOVT WERE MAJOR CONTRIBUTORS TO OCT MONEY SUPPLY
GROWTH, AS SHOWN IN TABLE BELOW.

MONEY AND CREDIT, S.A.

(BIL YEN; PCT CHANGE FROM PRIOR MONTH IN PAREN)

	M1	M2	LOANS AND DISCOUNTS
AUG	51,780 (1.2)	133,676 (1.0)	94,103 (0.7)

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SEP	52,319 (1.0)R	134,900 (0.9)R	95,088 (1.0)
OCT	53,294 (1.9)	136,994 (1.6)	96,354 (1.1)

CHANGES IN M2

(MONTHLY PERCENT CHANGE AT ANNUAL RATE)

	AUG	SEP	OCT
M2, S.A.	12.0	11.0R	18.6
M2, N.S.A. MIN	0.1	19.1R	9.6

FACTORS CONTRIBUTING TO CHANGES IN M2, N.S.A.

CREDITS TO:	AUG	SEP	OCT
PRIVATE SECTOR	10.0	15.1	12.0
NATL GOVT MIN	5.3	4.7	7.2
LOCAL GOVTS MIN	0.3	0.4	MIN 0.6
FOREIGN ASSETS,			
NET	0.3	1.3	MIN 0.4
OTHER MIN	4.8	MIN 2.4	MIN 8.6
TOTAL ALL FACTORS MIN	0.1	19.1	9.6

R-REVISED

8. DEPT STORES SALES, SEASONALLY ADJUSTED, DECLINED 2.2 PERCENT IN NOV AFTER RECORDING SHARP 4.8 PERCENT ADVANCE IN PREVIOUS MONTH. SALES DECLINES WERE REGISTERED FOR MOST ITEMS WITH ONLY PERSONAL ACCESSORIES ADVANCING FROM OCT LEVEL. EPA OFFICIALS HIGHLIGHTED ROLE IN NOV DECLINE OF THE SMALLER NUMBER OF WEEKENDS THAN IN OCT (SEASONAL ADJUSTMENT PROGRAM FOR THIS SERIES DOES NOT HAVE TRADING DAY ADJUSTMENT PROCEDURE). HOWEVER, AVERAGE FIGURES FOR OCT-NOV INDICATE THET DEPT STORE SALES WERE INCREASING AT A SLIGHTLY FASTER PACE THAN THE ADVANCE IN CONSUMER PRICES.

9. IN OTHER ANNOUNCEMENTS THIS PAST WEEK, EXPORT AND IMPORT PRICE INDICES ROSE FOR SECOND CONSECUTIVE MONTH IN NOV, THOUGH THE INCREASE WAS ENTIRELY DUE TO WEAKENING OF YEN. BOJ ESTIMATES EXPORT AND IMPORT PRICE INDICES WOULD HAVE DECLINED IN NOV, BY 0.4 PERCENT AND BY 0.3 PERCENT
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RESPECTIVELY IF EXCHANGE RATE FOR THE YEN HAD REMAINED UNCHANGED FROM OCT. EXPORT PRICES FOR ELECTRIC AND TRANSPORTATION EQUIPMENT ROSE IN NOV WHEREAS IMPORT PRICES FOR COFFEE AND COCOA BEANS RECORDED SHERP ADVANCE.

EXPORT AND IMPORT CONTRACT PRICE INDICES
(1970 EQUALS100, N.S.A., PERCENT CHANGE FROM PRIOR MONTH IN PAREN)

	EXPORTS (JEI 80)	IMPORTS (JEI 88)
SEP	139.8 (MIN 0.6)	209.7 (MIN 1.5)
OCT	140.2 (0.3)	212.4 (1.3)
NOV	140.8 (0.4)	213.9 (0.7)

10. FINALLY, PRESS REPORTS THIS WEEK INDICATE THAT THE MUCH TOUTED SHIFT TOWARD YEN-DENOMINATED IMPORT FINANCING HAS COME INTO HARD TIMES BECAUSE OF WIDENING DIFFERENTIALS BETWEEN THE COST OF YEN AND DOLLAR FINANCING. BANKING SOURCES ARE SAID TO INDICATE THAT THERE WAS ONLY ABOUT YEN 2 BIL OF SUCH YEN FINANCING IN OCT AND NONE IN NOV. WITH INTEREST RATES EASING IN THE U.S., EURODOLLAR FUNDS ARE QUOTED AS AVAILABLE AT UNDER 5 PERCENT, AS COMPARED WITH 8.125 PERCENT ON YEN BILL ACCEPTANCES. THIS SPREAD IS SEEN AS TOO BIG TO BE OVERCOME BY OFFICIAL INDUCEMENTS.

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Message Attributes

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